The Manufacturers Hanover
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Weekly Commentary, Selected Financial Data, and Business Indicators

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Economic Boom or Gloom?

Two extreme points of view have surfaced among those whose job it is to keep their fingers on the pulse of the economy. Some analysts see a resilient economy. Included in this group is the Commerce Department, whose recently released "flash" report showed the real GNP growing at a five per cent seasonally adjusted annual rate in the first quarter compared with the previous quarter. On the other hand, some economists have expressed the opinion that the economy has already slipped into recession.

On close examination, however, it would appear that the available statistics released through the middle of March do not support either view, since the economic indicators for February and March are mixed. Although business activity during the first quarter probably did not keep pace with the final quarter of 1980, neither did economic activity contract. The "flash" report was based primarily on January data, when the economy was somewhat stronger than in subsequent months. And while some statistics may be signalling a slowdown of the economy, others show improvement.

One of the more positive indicators is consumer spending. This sector represents about two-thirds of the overall GNP, and has remained fairly strong. In February, personal consumption expenditures rose by 1.3 per cent to a seasonally adjusted $1,818.2 billion annual rate, following a gain of 1.4 per cent in January. Durable goods consumption increased by a hefty 2.7 per cent paced by a 4.8 per cent rise in motor vehicle purchases. Spending on nondurable goods rose by 1.7 per cent, up from 1.5 per cent in January.

The automobile industry, which has been depressed for well over a year, is clearly showing signs of life. Generous rebate programs offered by domestic manufacturers, aimed at reducing persistently high inventories and boosting production, have stimulated sales significantly. During the last ten-day selling period in February, total sales jumped to a seasonally adjusted 10.3 million unit annual rate—the highest level since September, 1979. Combined with the first 20 days of March, car sales during the last 30-day selling period averaged 9.4 million units at an annual rate—20 per cent more than during the comparable period a year ago. In response, the automakers have begun to step up production of passenger cars and trucks. This, in turn, has stimulated demand for steel with production now running about three per cent above year-earlier levels.

That Is The Question

What is more, the BLS index of sensitive commodity prices, which responds quickly to changes in supply and demand and thus may be used as an indicator of future production levels, turned up in February. Importantly, prices of raw industrial materials rose 3.2 per cent during the five weeks ending March 17, 1981, after a three-month decline. In particular, production of paperboard, after posting year over year declines for most of the past 12 months, has been running well above year-ago levels.

To be sure, some negative indicators have also been released—especially within the past month. Specifically, new orders for manufacturers' durable goods rose by a very modest 0.4 per cent in February, with almost all of the increase accounted for by a sharp 35 per cent jump in orders for defense-related capital goods. Orders for nondefense capital goods plummeted by 14.5 per cent—the largest one-month drop in almost a decade. Industrial production fell by 0.5 per cent in February, after rising only 0.4 per cent the previous month. With the exceptions of mining and defense and space equipment, all major industries and market segments posted declines. The greatest cuts in production took place in the housing-related areas, such as durable goods for home and construction supplies—not surprising, in view of February's plunge in new home starts (Financial Digest—March 23, 1981).

Only Gloom For Federal Finances . . .

On balance, the array of recent indicators does not necessarily point to either recession or vigorous expansion. It probably signals a still growing economy, albeit at a slower rate than during the last quarter of 1980. Looking ahead, however, any downturn in activity which does occur will be moderated by the stimulative impact of an ever-

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widening Federal budget deficit. In February, expenditures exceeded revenues by $15.6 billion--$6.3 billion more than the February, 1980 deficit. This brought the fiscal year to date red ink total to more than $56 billion, almost $18 billion higher than the comparable fiscal 1980 period. If these trends persist, the budget deficit for the fiscal year as a whole will exceed $85 billion, or more than $30 billion higher than current Administration estimates--and a new record.

Unfortunately, these trends may not only persist, they may worsen. Despite the added emphasis being placed on national defense, the largest proportion of the fiscal year to date spending increases--about 45 per cent of the $40 billion year over year gain--is accounted for by stepped-up income security outlays, of which inflation-indexed Social Security payments are a major component. By contrast, increased defense spending, while averaging about $1.8 billion per month higher than year-earlier levels, accounted for only slightly more than one-fifth of the expenditure gain.

In the absence of substantial nondefense spending cuts, the current and projected rise in defense outlays will only widen the budget deficit even further. Increasingly, it becomes apparent that the nation can not have guns, butter ... and price stability.

Selected Federal Reserve Data

(Averages of Daily Figures--Billions of Dollars)

	Week Ending 3/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.444	+ 1.958	+ 3.580
Loans to Depository Inst.	.774	+ .006	- 2.226
Float	3.143	+ .140	- 2.456
Total Reserve Bank Credit	141.438	+ 2.254	+ 4.275
Treasury Deposits with Federal Reserve Banks	3.131	+ .109	+ .617
Currency Outside Banks	120.008	+ 1.395	+ 7.564
Member Bank Reserves:			
Required	39.491	+ .623	- 3.774
Excess (Deficiency)	.224	+ .005	+ .044
Total Reserves Held	39.715	+ .628	- 3.730
Net Borrowed Reserves	.357	- .007	- 2.307
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.949	+ .220	+21.794
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	363.7	- 22.8‡	+ 2.1‡
M-1B	420.6	+ 5.5‡	+ 7.3‡
M-2 (February '81)	1,692.1	+ 5.1	+ 9.3
L (December '80)	2,373.5	+ 2.1	+ 10.3

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 3/27/81			
‡U.S. Treasury Bills	12.95%	12.66%	12.12%
* Federal Agencies	13.53	13.38	13.25
* Project Notes--Taxfree (46% Taxable Equivalent)	11.94	12.22	12.69
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market--Prime	13.50	13.50	

‡Finance Company Paper--Prime

5- 29 days	14.00%
30- 59 days	13.00
60-179 days	12.50
180-239 days	12.38
240-270 days	12.00

‡* Bankers' Acceptances

Apr.	14.00%
May	13.80
Jun.	13.60
Jul.	13.55
Aug.	13.30
Sep.	13.00

‡Industrial Paper--Prime

30- 89 days	13.88%
90-120 days	13.75

†Federal Funds Effective Rate 15.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb '81n	12.0%	8.4%	15.6%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100)†	Feb '81n	136.3	136.9	134.1
Industrial Production Index (1967=100)†	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	-$ 4.37	-$ 2.19	-$ 3.72
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,615	1,273
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales†	Jan '81	$ 338.7	$ 332.5	$ 312.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n Newly reported figure. a Anticipated.

. . . And Consumer Prices

As if to underscore this point, the rate of inflation picked up again last month, moving back into double-digit territory. The consumer price index rose by one per cent in February, up from the 0.7 per cent month over month rise posted in January. About 60 per cent of the advance was the result of rising energy prices—gasoline, motor oil, natural gas and electricity—prompted largely by January's decontrol of crude oil prices. The transportation component increased by 2.4 per cent, almost all of which occurred because of the 6.6 per cent rise in gasoline prices—the biggest jump in a year. These gains more than offset the beneficial effects of sagging home prices, the auto rebates and falling meat prices.

Despite the 1.2 per cent decline in housing prices, however, the housing index increased in February by 0.6 per cent. Here again, rising energy prices (particularly home heating oil) were the major culprits, along with a 1.4 per cent gain in mortgage interest rates. Grocery store food prices remained unchanged in February. Meats, poultry, fish and eggs together declined by 2.1 per cent, reflecting the large supplies of beef, pork and poultry on the market. However, the sharp decline in meat prices was offset by rising fruit and vegetable prices, where supplies were substantially reduced by the January freeze.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/11/81)	112,208	+ 404	+18,240
New York City (3/11/81)	26,952	+ 237	+ 6,577
Commercial Paper (3/11/81)	132,476	+ 474	+13,927

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (3/11/81)	168,936	– 1,047	+ 7,302
New York City (3/11/81)	49,419	– 130	+ 1,867

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/81)	421,060	– 4,392	+18,233
New York City (3/11/81)	98,122	– 2,191	+ 7,742

Financial Markets

	Friday 3/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.07%	+ .67	– 3.72
180-Day Bills†	12.67	+ .97	– 4.49
Longest Bills	12.17	+ .67	– 4.38
Recent Issues:			
13⅝s 1/31/83	13.63	+ .73	
14¼s 8/15/84	13.55	+ .71	
13s 11/15/90	13.23	+ .80	
12¾s 11/15/10	13.95	+ 1.95	
Municipals:			
Bond Buyer–20 Bond Index* (3/26/81)	10.09%	+ .28	+ .65
Blue List Total ($ Million)	$ 890	+ $169	+ $ 449
30-Day Visible Supply ($ Million)	$2,715	+ $463	+ $1,821
Total	$3,605	+ $632	+ $2,270
Corporates:			
Moody's Aa Composite (3/26/81)	13.90%	+ .26	+ .13
Money Mgr.–30-Day Supply ($ Million)	$4,138	+ $338	+ $2,578
Stocks:			
Dow-Jones Averages:			
Industrials	994.78	+ 1.98	+ 217.13
Transportation	430.29	+ 11.70	+ 188.08
Utilities	107.53	– 1.60	+ 9.80
65 Stocks	386.02	+ 3.13	+ 107.20
Standard and Poor's 500 Stocks	134.65	+ .57	+ 33.97
N.Y.S.E. Composite Index	77.59	+ 5.46	+ 20.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	57,668	– 1,594	+ 11,510

* 46% Taxable equivalent 18.69%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/27/81	Week Ago
Overnight	15.13%	13.25%
1 month	15.00	13.50
3 month	15.13	14.00
6 month	15.25	14.13
1 year	15.06	14.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	13.30%
Long Term (7 to 15 yrs.)	14.10	13.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/27/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02875	34.78
Canada	.8422	1.1874
Denmark	.1497	6.6800
France	.1995	5.0125
Germany	.4698	2.1285
Italy	.0009416	1062.00
Japan	.004721	211.80
Mexico	.04211	23.75
Netherlands	.4246	2.3550
Switzerland	.5160	1.9380
U.K.	2.2345	.4472

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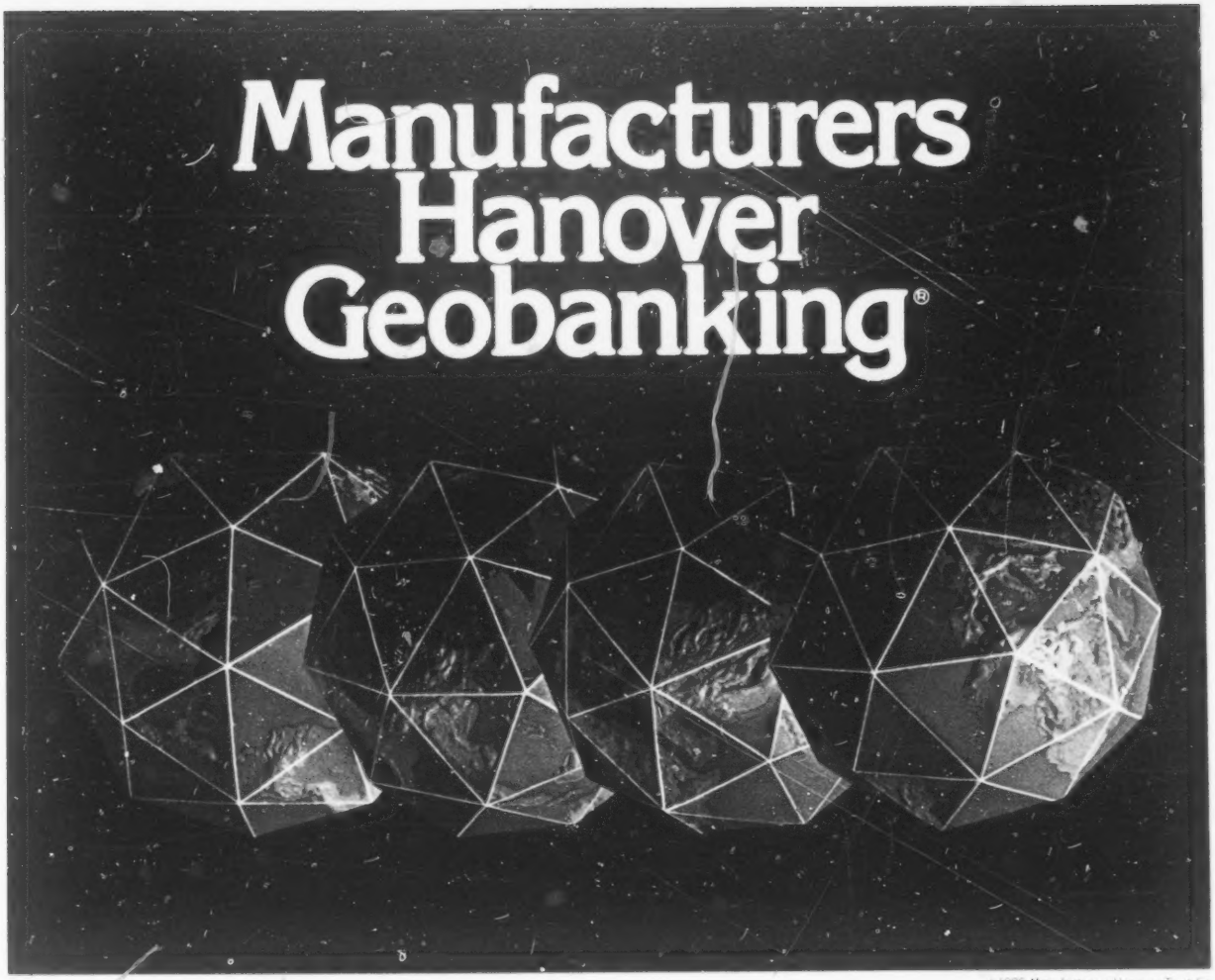

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